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Pensions & Investment Age

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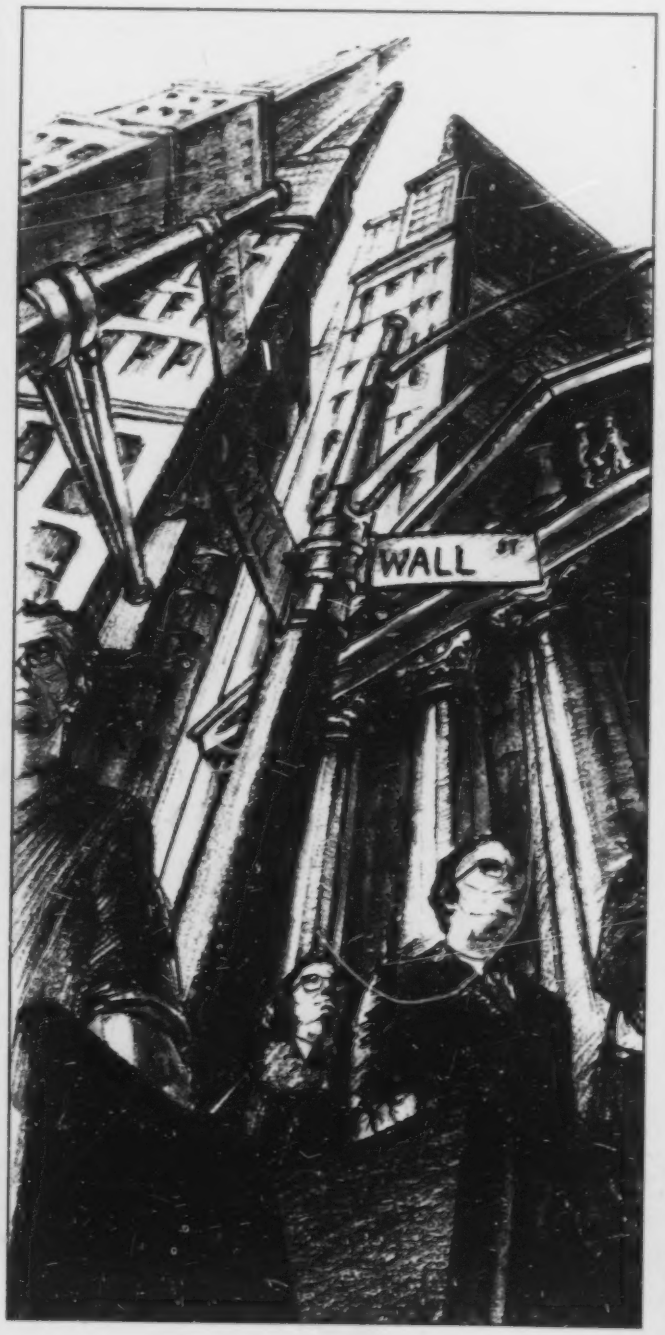
SALOMON, GOLDMAN TOP WALL STREET SURVEY; Merrill best for equity research



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AT&T, GM pioneer real estate move

By Alan Krauss

An estimated $650 million participating loan made by the pension funds of General Motors Corp. and American Telephone & Telegraph Co. likely represents the first time pension funds have taken direct interest in a large portfolio of existing shopping centers.

In the past, pension funds have been involved in purchases of groups of shopping centers only through commingled funds, or they have participated in purchases of individual shopping centers.

The two huge pension funds lent the money to Detroit shopping center magnate A. Alfred Taubman, rated by Forbes magazine as the richest person in Michigan, in a deal put together by New York investment banker Salomon Brothers. Aldrich, Eastman & Waltch, Boston, was the real estate investment adviser to both pension funds in the transaction.

Neither GM nor AT&T officials would disclose the terms or structure of the financing, which was secured by Mr. Taubman's interests in 17 regional shopping centers developed by his Taubman Co. and valued at $2 billion.

Real estate experts said the loan probably is in the form of a coupon-bearing note senior to the equity Mr. Taubman retains in the centers.

Taubman Co. officials said the deal carries an equity option entitling the two pension funds to become 50% owners after 1997 of Taubman Realty Group Limited Partnership, a vehicle formed to execute the financing.

At least one major institutional investor rejected the deal in its formative stages because of questions about its structure. "It was really not a real estate deal, it was a bond," a source at the institution said. "And the interest rate that was proposed was not attractive."

AT&T's commitment to the Taubman deal was made with money already allocated to real estate. It is unclear whether GM used assets already committed to real estate or invested freshly allocated money.

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Late news

'Junk' bonds junked

SACRAMENTO, Calif. — The California Teachers' Retirement System has dropped plans to add high-yield bond managers.

Tom Flanigan, the system's chief investment officer, said the so-called junk bonds wouldn't fit in with the system's new long-range objectives.

The system had gotten as close as

Continued on page 4

Pensions & Investment Age

Asset reversions skyrocket to $8 billion

By Chuck Paustian

WASHINGTON — More than $8 billion is expected to be plowed into corporate coffers through completed and pending terminations of overfunded pension plans as of June 30.

Corporations had recaptured $6.2 billion as of March 31.

Other significant findings from an analysis of data compiled by the Pension Benefit Guaranty Corp. include:

• The average amount of money reverting to corporations is shrinking, after several years of growth.

• Companies are recapturing an increasingly smaller percentage of the total assets of the plans they are terminating.

(However, statistics on the average reversion and the average percentage of total assets do not include plans with termination dates after June 30. Excluded were United Air Lines' proposal to recapture $962.2 million by terminating five defined benefits with total assets of $1.6 billion and Union Carbide Corp.'s plan to recapture $500 million by terminating its $2.8 billion plan.)

The average reversion among plans whose approved termination date was between Jan. 1 and June 30, 1985, was 46.9%, compared with 59.1% among plans whose approved termination date was a year earlier.

Reversions as a percentage of total assets skyrocketed to as much as 63.7% after the third quarter of 1984.

Plans terminating during the first half of this year had an average reversion of slightly more than $8 million; plans terminating during the first half of last year had an average reversion of almost $10.6 million.

Since May 1980, corporations will have recaptured $8.07 billion from terminated pension plans with reversions of $1 million or more, the PBGC's data as of June 30 show. Those plans have total assets of $17.89 billion.

Although the average amount of recovered assets has declined, corporate sponsors don't seem deterred from terminating their overfunded pension plans.

The PBGC's statistics show 155 notices with termination dates during the first half of 1985 were filed for plans with assets totaling slightly more than $3 billion. The average size of plans that filed termination notices was $19.4 million. For the same period in 1984, only 116 notices were filed for plans with total assets of $2.16 billion. The average size of the plans that filed was $18.6 million.

Among plans recently filing notices of intent to terminate are:

• American Sterilizer Co., Erie, Pa., with assets of $46.1 million and surplus assets of $21.7 million.

• H.P. Hood Inc., Boston, with $62 million in assets and an expected reversion of $14.5 million.

• Wilson Sporting Goods Co., Chicago, with assets of $45 million and an expected reversion of $14 million.

• Xtek Inc., Cincinnati, with assets of $34.3 million and an expected reversion of $16 million.

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Investors favored Salomon in survey

By Alan Krauss

NEW YORK — Salomon Brothers Inc. is the clear favorite of institutional investors assessing the equity and fixed-income research and execution abilities of the nation's brokerage firms, *Pensions & Investment Age's* fifth annual institutional brokerage survey shows.

But while Salomon's fixed-income strengths were such that it swept away the overall competition, the survey shows other brokerage firms offer superior services in the equity arena.

Respondents awarded top honors for equity research to Merrill Lynch & Co. Inc., while Goldman, Sachs & Co. was judged to offer the best execution of equity block trades.

Goldman, Sachs also was named the firm with the highest overall quality of services, just ahead of Merrill Lynch.

The 104 investment management firms responding to *P&I Age's* survey were asked to name the three best firms in 1984 for equity research, equity trading, bond research and bond trading.

On the basis of three points awarded for every first-place mention, two points for second and one point for third, Salomon scored 448 points; Merrill Lynch, 360; and Goldman, Sachs, 312. None of the others scored even 200 points.

The overall rankings represent a reshuffling of the top three firms identified in last year's survey, in which Goldman, Sachs was first, followed by Salomon and Merrill Lynch.

Those responding to the survey — large money managers and investment officers of internally managed pension funds — manage assets totaling $278.5 billion, with the average amount under management $2.8 billion. They paid an aggregate of $190 million in brokerage fees, up 7.6% from last year. The most paid by one manager was $18.8 million, while the median commission cost was $2.1 million, an increase of 38.1% over last year.

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Latest withdrawal attempt

Lear Siegler dropping IPGs

By Barry B. Burr

SANTA MONICA, Calif. — In the latest of a number of similar moves by pension funds, Lear Siegler Inc. is beginning negotiations with several insurance companies to withdraw about $20 million in immediate participation guarantee contracts.

The renegotiation of IPGs, essentially investments without any maturity, has been troublesome in general to both holders and insurers, at times leading to lawsuits. Some insurance companies contend there is nothing to negotiate.

At Lear Siegler, Harvey D. Welles, director-retirement funds and senior economist, said negotiations with the five insurance companies could take 18 months.

"We're renegotiating primarily for liquidity reasons," he said, adding Lear Siegler wanted to invest the proceeds elsewhere. "The contracts basically last forever."

He said the proceeds would be reinvested in fixed-income and equity investments.

The company hired Morley Capital Management Inc., Portland, Ore., to negotiate the withdrawals.

"Morley is trying to renegotiate to keep the market value adjustment (loss) low," Mr. Welles said.

He said the contracts allow Lear Siegler to terminate anytime, but "there are clauses in there dictating the market adjustment."

The contracts are with Connecticut General Insurance Co., Hartford, Conn.; Equitable Life Assurance Society of the United States, New York; Aetna Life & Casualty Co., Hartford, Conn.; Bankers Life Co., Des Moines, Iowa; and Union Mutual Life Insurance Co., Portland, Maine.

Mr. Welles said the contracts' current average return is between 9% and 12%.

He said declining market interest rates would make the renegotiating easier.

> *"We're renegotiating primarily for liquidity reasons . . . The contracts basically last forever."*
> —Harvey D. Welles, Lear Siegler Inc.

"The penalties of withdrawal aren't as severe," he said, because the contracts' current return is near market rates on similar investments. "That was part of our reason for opening discussions."

At Bankers Life, John S. Martin, vice president, agreed. "With current market rates down, a negative market value adjustment is diminished," he said, speaking about IPGs.

In fact, he added, "The cash-out could be at a premium, if the IPG rate is higher than current rates."

Mr. Welles said Lear Siegler assumed some $35 million, book value, in IPGs including the approximately $20 million being renegotiated, in its acquisition of Bangor Punta Inc. Lear Siegler's pension fund totals $215 million.

But Lear Siegler gave Morley only about half of the contracts to renegotiate. "The nature of the other contracts is different," he said. "Our options are a little different; it actually may be easier to get out (of them)." He said those contracts were with Connecticut General and Aetna.

"I didn't want to give Morley all the contracts," he added.

Officials at Bankers Life and Aetna said there is nothing to negotiate in the contracts.

"Negotiation is kind of a bad label," Bankers Life's Mr. Martin added. "There isn't anything to negotiate. It's no mystery. I suspect at some (insurance) companies there might be a process of negotiation."

At Bankers Life, he said, "The contract is clear; there is no book value withdrawal."

The options are to take it out immediately at market (and probably less than book) value, or to receive the book value spread out in payments over nine years.

At Aetna, William N. Martin, assistant vice president, said, referring to Lear Siegler, "They don't need to hire anybody to talk with us. There is no need for Lear Siegler to have a mouthpiece for them.

"There are people out there saying, 'Pay me a fee and I can get something out of them (the insurers) you can't.' That's a lot of bunk. I've never witnessed any instance where they succeed in negotiating anything we wouldn't have given

Continued on page 62

Must top S&P by 400 basis points

GTE funds Barr Rosenberg

By Steve Hemmerick

STAMFORD, Conn. — The approximately $5 billion GTE Corp. pension fund reportedly committed $100 million to Rosenberg Institutional Equity Management, increasing by 333% the firm's assets under management and challenging it to beat the Standard & Poor's 500 stock index by 400 basis points per year.

GTE also is said to be changing its asset allocation and dropping several of its approximately 50 existing managers.

GTE officials would not confirm the hiring nor comment on any other changes in pension fund management. But Marlis S. Fritz, director of marketing for RIEM, said the firm had been hired by GTE officials. She said GTE officials have told the money management firm to surpass the S&P 500 index by a gross return of 400 basis points.

Barr Rosenberg of RIEM

The fledgling investment manager's objective is ambitious, considering all-too-frequent discussions these days about the inability of many active money managers to even match the S&P 500. Ms. Fritz said RIEM executives are "confident" they can do so.

RIEM officials also are appreciative of GTE's confidence in them; without GTE's commitment, RIEM has only $30 million under management, of which two-thirds is new business. GTE's contribution will give the RIEM team the ability to show what it can do.

Because of special quantitative techniques used, RIEM executives would have preferred to compete against a broader index, such as the Russell 3,000 or Wilshire 5,000. However, they took on GTE's directive.

RIEM uses quantitative techniques to search out fundamental, but not absolute, values. It is in all sectors of a given universe at all times, but selects only a relatively few companies from each sector, those with unrecognized values, RIEM officials said.

Rather than making judgments about the absolute value of a company, RIEM seeks to identify and exploit errors others make in valuing companies, they said.

Barr Rosenberg, the former University of California at Berkeley business professor and founder of BARRA, a financial consulting firm, is RIEM's chief investment officer. (RIEM's only connection with BARRA is Mr. Rosenberg.)

RIEM executives assert they can beat the market through active management; GTE officials told them to prove it.

At least some of the $100 million given to RIEM has come from managers who apparently failed to keep promises they made to GTE. RIEM executives say they are confident they will keep theirs.

Officials of several management firms on GTE's extensive roster of managers said they still are running money for the pension fund. At least one, Hutton Capital Management, New York, had its allocation increased this year, a spokesman said. He could not provide further information.

Officials of several other firms on GTE's roster declined comment. No one confirmed any manager terminations.

A spokesman for GTE's master trustee, State Street Bank & Trust Co., Boston, said he is aware that changes may be going on but referred questions to GTE. State Street remains one of GTE's money managers as well as master trustee, the spokesman said. ■

Premium hike only sure thing

By Joel Chernoff

WASHINGTON — Companies will see a hike in the premium they pay the Pension Benefit Guaranty Corp. for insurance of single-employer pension plans.

But how large that increase will be, when it will take effect and how long it will last were unclear, at least as of press time.

What's more, the Reagan administration's long-sought-after reforms to the termination insurance system hung in doubt, as House labor and tax-writing committees slugged out a bitter turf war.

Meanwhile, their counterparts in the Senate were trying to fuse their own bill in an effort to come up with reforms more palatable to business while not losing the upper hand to the lower chamber.

Few pension experts, however, are willing to make predictions on the legislation's future.

"At times it looks like it's good, at other times it looks like it's not," said one government official involved in the negotiations.

Participants were hoping differences would be resolved by Sept. 27, which was the deadline for congressional committees to report their budget recommendations.

If some legislation survives this stage, several scenarios could develop, including a battle in a House-Senate conference on specific provisions in the bill.

In addition, observers fear Sen. Howard Metzenbaum, D-Ohio, may pose an obstacle at various steps along the way if he holds out for action on asset reversions stemming from terminations of overfunded plans.

The senator was angered by Labor Secretary William E. Brock's Sept. 20

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Reynolds, Nabisco plan to change after merger

WINSTON-SALEM, N.C. — The merger of R.J. Reynolds Industries Inc. and Nabisco Brands Inc. will result in changes in the combined $2.2 billion pension fund's stable of outside managers.

Gene A. Hoots, president of RJR Investment Management Inc., said manager changes must await the completion of a re-examination and possible restructuring of the treasury of the merged companies and the arrival of Harrison M. Bains, formerly treasurer at Nabisco and recently named vice president and treasurer of R.J. Reynolds.

RJR Investment Management Inc. is Reynolds' in-house investment management subsidiary; Mr. Hoots is the executive responsible for pension-asset management.

John W. Dowdle, formerly Reynolds' treasurer, was elected a Reynolds senior vice president.

Although Mr. Bains oversaw pension asset management at Nabisco, it is unclear whether that will be among his responsibilities at Reynolds, according to company spokesmen.

The combining of Reynolds' and Nabisco's pension assets appears to be proceeding more rapidly than has been the case in other Reynolds' acquisitions.

The merger was announced less than five months ago and was completed only about a month ago.

In two other instances, Reynolds executives waited 18 months before combining the management of acquired companies' pension funds with their own.

Late news

Continued from page 3

picking finalists for the job. Finalists were: AIM Management Inc., Houston; BEA Associates, New York; Delaware Investment Advisers, Philadelphia; First Investors Asset Management Co. Inc., New York; Kemper Financial Services, Chicago; Massachusetts Financial Services Co., Boston; and Travelers Investment Management Co., Hartford, Conn.

Star misses payment

Star Technologies Inc. failed to make a September interest payment on a convertible subordinated note issue held by General Electric Co.'s pension fund and others.

The GE fund bought $6 million of the $11 million in notes issued as a private placement, a spokesman said, adding the fund regards it as part of its venture capital investments. The spokesman said the fund is seeking payment.

The notes reportedly pay a 10% annual interest rate.

Officials at Star, which reportedly has a contract to make medical imaging equipment for GE, were unavailable for comment on the issue. Star, whose shares trade over the counter, reported losses of $1.3 million and $4.9 million in the quarters ended, respectively, Dec. 31 and March 31.

Agent Orange fund

WASHINGTON — The nation's money managers will get a shot at providing investment management and claims administration services for about $150 million set aside for cash awards to veterans exposed to the herbicide Agent Orange during the Vietnam War.

Kaye, Scholer, Fierman, Hays & Handler, a Washington law firm appointed to oversee the Agent Orange Veteran Payment Program, is soliciting proposals for contracts to manage the money, which is part of a $180 million settlement in 1984 of a class action suit brought against seven manufacturers of the herbicide, according to Kenneth R. Feinberg, a Kaye, Scholer partner.

Mr. Feinberg said he has not yet determined how many or what types of managers will be retained.

USC picks new firm

LOS ANGELES — The University of Southern California has become the first client of Aronson & Fogler Investment Management, Philadelphia. Lyn Hutton, USC treasurer, said the $190 million endowment hired Aronson & Fogler to run a $10 million equity account.

The firm will manage a portion of the endowment fund's core equity portfolio. Its investment style features large holdings of Standard & Poor's 500 stocks in about equal weightings to the index. While portfolios contain up to 250 individual securities, backtesting indicates it has outperformed the S&P 500 for the past 10 years, said Ted Aronson, a partner.

Late money movers

• DALLAS — The Texas Utilities Co. System, a utility holding company with about $500 million in employee benefit assets, has hired two fixed-income managers.

Rosenberg Capital Management, San Francisco, and Standish, Ayer & Wood Inc., Boston, will run fixed-income portfolios of up to $30 million each, according to a company spokesman.

• DECATUR, Ga. — The $139 million DeKalb Employees Retirement System hired Newbold's Asset Management, Philadelphia; Southeastern Asset Management Inc., Memphis, Tenn.; and Wedge Capital Management, Charlotte, N.C., to run equity accounts of $15 million, according to Betty Barton, fund administrator.

The fund also increased its allocation to balanced manager INVESCO Capital Management Inc., Atlanta, to $109 million from $86 million. The fund terminated two Atlanta stock managers, Atlanta Capital Management, which had run $32.5 million, and Wall, Patterson, Hamilton & Allen Inc., which had managed $20 million. The fund also shifted a small internally managed cash equivalent account to INVESCO.

• TWINSBURG, Ohio — D.S. Revco Inc., with $55 million in pension and profit-sharing assets, hired The Boston Co. Inc., Boston, to manage a fully discretionary, value-oriented equity account, according to Wilbur Smith, treasurer.

Mr. Smith said the company's $35 million pension plan has funded $4.7 million of a commitment expected to total $8 million.

SEI Funds Evaluation Services, Chicago, was the consultant.

• ARLINGTON, Texas — The Martin Sprocket & Gear Co. has hired MSecurities in Dallas to run a $5 million balanced portfolio for the firm's $20 million profit-sharing plan, a company spokesman confirmed.

• ATLANTA — Aaron Rents Inc. hired First National Bank of Atlanta as investment manager, record keeper and trustee of its new 401(k) plan, said J. Ray Minchew, vice president-finance.

Institutional BROKERAGE Survey

The 104 investment management firms responding to Pensions & Investment Age's *survey on brokerage firms were asked to name the three best firms in 1984 for equity research, equity trading, bond research and bond trading.*

Broker survey . . .

Continued from page 3

These institutions used an average of 38 brokers, four less than in last year's survey, while the median cost of buying or selling a security fell 13.1%, to 10.6 cents from 12.2 cents.

Average per-share trading cost fell two years in a row after rising in 1981.

Merrill Lynch displaced Salomon Brothers as the firm receiving the greatest amount of commission dollars, taking in $8.6 million in commissions for an increase of 19.4%. Merrill was followed by Goldman, Sachs, which earned $7.4 million; Salomon, $3.4 million; First Boston Corp., $2.7 million; and Morgan Stanley & Co. Inc. and Smith Barney, Harris Upham & Co. Inc., $1.9 million each.

In equity research, Merrill Lynch and Goldman, Sachs ranked first and second for the third consecutive year, receiving 37 and 15 first-place votes and 149 and 82 total points, respectively.

First Boston, named best by nine institutions, replaced Dean Witter Reynolds Inc. in third place for equity research. (Dean Witter did not make the Top Five.)

Other firms receiving three or more first-place mentions from respondents were Paine, Webber, Jackson & Curtis Inc.; Donaldson, Lufkin & Jenrette Securities Corp.; and Drexel Burnham Lambert Inc., which was not among the top firms last year.

The Top Five firms for equity block trading were unchanged from last year: Goldman, Sachs was first with 29 votes and 148 total points, followed by Salomon, Merrill Lynch, Morgan Stanley and Jefferies & Co. Inc.

Salomon Brothers was far and away the most highly acclaimed fixed-income brokerage firm in 1984, receiving 42 first-place votes and 160 total points for its research and 36 first place votes and 152 total points for its trading prowess.

In research, Salomon was followed by First Boston, with 10 first-place votes and 76 points; Merrill Lynch, nine first-place votes and 58 total points; L.F. Rothschild, Unterberg, Towbin; and Goldman, Sachs.

In execution, Salomon was trailed by Merrill Lynch, eight first-place votes and 75 total points; First Boston, six first-place votes and 53 total points; Shearson Lehman Brothers, six first-place votes and 28 points; and Goldman, Sachs, five first-place votes and 48 total points.

Salomon was named by 31 respondents as the firm receiving most of their fixed-income business, followed by Merrill Lynch, named by 17; First Boston and Shearson Lehman Brothers, six each; and Goldman, Sachs, five.

The best execution of options and futures orders is offered by Salomon, according to the survey. Salomon is followed by Merrill Lynch, Morgan Stanley and Kidder, Peabody & Co. Inc. for options execution and by Kidder, Peabody and Merrill Lynch for futures execution.

Those surveyed most frequently identified Salomon, along with Drexel Burnham, as the brokerage firms that provided them with the single best investment idea of 1984. Each received six votes for best idea, followed by Cyrus J. Lawrence Inc., Merrill Lynch and Paine, Webber, with four votes each.

According to the survey, money managers and investment officers of internally managed pension funds used soft dollars to purchase an average of 38.5% of their securities research. Merrill Lynch was identified by 14 respondents as the firm receiving the most soft-dollar business. Goldman, Sachs was second and William O'Neil & Co. Inc., third.

Merrill Lynch also was most frequently identified as the firm executing the largest amount of soft-dollar business, followed by Autranet Inc.; Bear, Stearns & Co. and Goldman, Sachs.

Survey respondents said that, on average, they would have bought only about one-half the research purchased with soft dollars if the discount had not been available. Of those who chose to answer the question, 44% said they would use the same amount of soft dollars in 1985, while 33% said they plan to use more and 24% said they will use less.

William Blair & Co., Chicago, was the brokerage firm named as offering the best research of regional and small-capitalization firms when scored according to number of first-, second- and third-place mentions, receiving a total of 50 points. It was followed by Alex. Brown & Sons Inc., Baltimore, 40 points; Robinson-Humphrey/American Express Inc., Atlanta, 34; Prescott, Ball & Turben Inc., Cleveland, 23; and Montgomery Securities, San Francisco, 20.

Sales representatives identified as best at calling on institutional managers, each receiving two votes, were: Tony Baldwin and Bill Hubbard, both of Paine, Webber; Tom Garr, First Boston; Ted James, Montgomery Securities; James Koltes, Kidder, Peabody; and David Schroll, Merrill Lynch.

Responses were similar to last year's on naming the most accurate market technicians and the most respected Wall Street economists.

Edward Hyman of Cyrus J. Lawrence again was named top economist, receiving more than twice as many votes as second-place Gary Wenglowski of Goldman, Sachs. Henry Kaufman of Salomon Brothers was third, replacing Lacy Hunt of Carroll McEntee & McGinley.

The two top market technicians identified in the survey again were Robert Farrell of Merrill Lynch and John Mendelson of Dean Witter.

In third place, however, Stanley Berge of Tucker, Anthony & R.L. Day Inc. replaced Alan Shaw of Smith Barney.

Respondents also were asked to predict the levels of the Dow Jones Industrial Average and long-term interest rates as of Dec. 31, 1985. They predicted an average for the DJIA of 1,382, and for long-term interest rates, 10.7%.

Finally, when asked which brokerage firm "consistently offers the highest quality services," the investment managers named Goldman, Sachs 25 times; Merrill Lynch, 24; Salomon, 13; First Boston, seven; and Morgan Stanley, five. ■

Institutional use of brokers

Total brokerage commissions paid by investment managers in 1984

Aggregate:	$ [illegible]
High:	$8 [illegible]
Median:	2 [illegible]
Low:	258,000

Trading costs per share in 1984

High:	25.0¢
Median:	10.6¢
Low:	3.5¢

Brokerage firms that received the most in fees from respondents in 1984

Merrill Lynch	$8,643,350
Goldman, Sachs	7,374,580
Salomon Brothers	3,378,800
First Boston	2,686,100
Morgan Stanley	1,943,200
Smith Barney	1,893,650

Number of brokerage firms used by one investment manager

High:	180
Average:	38
Low:	1
Median:	32

How brokers rate on research and trade execution (mentions)

Best overall quality

Most often named 1st	Most often named 2nd	Most often named 3rd
Goldman, Sachs Merrill Lynch (24) Salomon (13)	First Boston (7) Morgan Stanley (5) Kidder Peabody (4)	

Best equity research

Merrill Lynch (37) Goldman, Sachs (15) First Boston (9) PaineWebber (4) DLJ (3) Drexel Burnham (3)	Merrill Lynch (19) Goldman, Sachs (12) Salomon (12) First Boston (6) Morgan Stanley (5)	Goldman, Sachs (13) First Boston (9) Morgan Stanley (8) Kidder Peabody (7) PaineWebber (6)

Best equity trading

Goldman, Sachs (29) Salomon (22) Merrill Lynch (10) Morgan (8) Jefferies (5) First Boston (4)	Goldman, Sachs (23) Merrill Lynch (17) Salomon (14) First Boston (10) Morgan Stanley (6) PaineWebber (4)	Goldman, Sachs (15) Merrill Lynch (12) Salomon (9) First Boston (7) Jefferies (4) Kidder Peabody (4)

Best fixed-income research

Salomon (42) First Boston (10) Merrill Lynch (9) L.F. Rothschild (5) Goldman, Sachs (4)	Salomon (17) First Boston (17) Merrill Lynch (9) Goldman, Sachs (8) Pru Bache (4)	Merrill Lynch (13) First Boston (12) Goldman, Sachs (6) Kidder Peabody (5) Shearson Lehman (5)

Best fixed-income execution

Salomon (36) Merrill Lynch (8) Shearson Lehman (6) First Boston (6) Goldman, Sachs (5) Drexel Burnham (4)	Merrill Lynch (19) Salomon (18) First Boston (13) Goldman, Sachs (12) Pru Bache (3)	Merrill Lynch (12) First Boston (9) Goldman, Sachs (9) Salomon (8) Shearson Lehman (6)

Best regional brokerage firms

William Blair (10) Alex. Brown (10) Robinson Humphrey (6) Prescott Ball (5) Montgomery (5)	William Blair (8) Robinson Humphrey (7) Alex. Brown (4)	Montgomery (5) William Blair (4)

Best stock market technicians	Best Wall Street economists
Robert Farrell (42) John Mendelson (37) Stan Berge (15) Alan Shaw (15)	Edward Hyman (45) Gary Wenglowski (21) Henry Kaufman (14) David Levine, Jack Lavery (10)

100 largest investment institutions and subsidiaries ($ mils.)[1]

(For story on Top 100 institutions, turn to page 28.)

1. **Prudential Investment Corp.*** — **$86,368**
   - Prudential Capital Markets Group — 22,258
   - Prudential Realty Group — 16,498
   - Pru-Bache Investment Advisory — 7,100
   - Prudential Asset Mgmt. Co. Inc. — 34,607
   - PruCapital Inc. — 3,777
   - Prudential Equity Mgmt. Assoc. — 2,014
   - Prudential Venture Capital Mgmt. — 114
2. **Metropolitan Life Insurance** — **84,100**
   - State Street Research & Mgmt. — 11,400
3. **Equitable Life Assurance** — **77,000**
   - Equitable Life — 24,747
   - Alliance Capital Management — 22,031
   - Equitable Real Estate Invest. Mgmt. — 20,391
   - Equitable Investment Management — 7,817
   - Wood Struthers & Winthrop — 1,178
   - Calvin Bullock Ltd. — 836
4. **Aetna Life & Casualty Co.** — **76,971**
   - Consolidated Life Co. — 35,289
   - Federated Investors — 29,622
   - Consolidated Casualty Co. — 11,986
   - Other affiliates — 74
5. **American Express Co.** — **63,702**
   - Shearson Lehman Brothers Inc. — 44,116
   - (Includes LEMCO, $14.353 billion; The Boston Co., $10.436 billion; Bernstein McCauley, $10.195 billion; Balcor/American Express, $4.8 billion; Shearson Asset Management Inc., $4.015 billion; Shearson Equity Management, $150 million; Shearson Management Inc., $167 million.)
   - IDS Financial Services — 19,586
   - (Includes IDS Advisory Group, $3.162 billion; Gray, Siefert & Co., $330 million; IDS Trust Co., $388 million; IDS/Gartmore International, $85 million; and IDS Fund Management, $11 million.)
6. **Merrill Lynch & Co.** — **52,000**
   - Merrill Lynch Asset Mgmt. — 52,000
7. **Citicorp** — **42,000**
   - Citicorp Investment Management — 23,400
8. **The Travelers Insurance Co.** — **39,756**
   - The Travelers Asset Mgmt. — 1,056
9. **Bankers Trust Co.** — **39,700**
   - Investment Management Group — 32,500
   - Private Clients Group — 5,300
   - Endowments — 1,900
10. **TIAA-CREF** — **37,145**
    - TIAA — 20,105
    - CREF — 17,039
11. **CIGNA Corp.** — **36,000**
    - CIGNA Investment Advisory Co. — 21,500
    - CIGNA Capital Advisers Inc. — 8,000
    - CIGNA Investment Mgmt. Co. — 6,500
12. **Sears, Roebuck and Co.** — **34,757**
    - Dean Witter Financial Services — 16,000
    - SIMCO — 5,937
    - Allstate Insurance Co.* — 12,230
    - Coldwell Banker Commercial Group — 727
13. **J.P. Morgan & Co. Inc.** — **34,272**
    - J.P. Morgan Investment Mgmt. — 27,232
    - Morgan Guaranty Trust Co. — 6,938
    - Morgan Trust Co. of Florida — 102
14. **John Hancock Mutual Life*** — **32,771**
    - Tucker Anthony Holding Co. — 3,570
    - John Hancock Advisers Inc. — 1,862
    - Independence Investment Assoc. Inc. — 1,402
    - John Hancock Venture Capital Mgmt. — 223
    - John Hancock Financial Services — 156
15. **FMR Corp.** — **29,830**
    - Fidelity Mgmt. and Research — 27,400
    - Fidelity Management Trust Co. — 2,430
16. **PMC Financial Corp.** — **29,678**
    - Provident Bank — 23,784
    - Pittsburgh National Bank — 4,328
    - Northeastern Bank — 1,029
    - Marine Bank — 537
17. **Chase Manhattan Corp.*** — **29,638**
    - Chase Manhattan Bank — 18,048
    - Chase Investors Management — 3,558
    - Chase Lincoln First Bank — 3,160
    - Chase Manhattan Trust Co. of Fla. — 4,872
18. **The Dreyfus Group** — **27,200**
    - The Dreyfus Corp. — 25,300
    - Dreyfus Management Inc. — 1,900
19. **Mellon Bank** — **26,411**
    - Mellon Capital Mgmt. Corp. — 4,353
    - Mellon Real Estate Investment Mgmt. — 700
    - Franklin Portfolio Associates — 651
20. **New York Life Insurance Co.** — **26,100**
    - MacKay-Shields Financial Corp. — 3,140
    - N.Y. Life Insurance & Annuity — 2,918
21. **California Employees'** — **25,274**
22. **New England Mutual Life** — **25,300**
    - Copley Real Estate Advisers — 4,500
    - Loomis, Sayles & Co. — 14,000
23. **The State Farm Group** — **24,958**
24. **Manufacturers Investment** — **24,088**
    - Manufacturers Hanover Invest. Corp. — 19,319
    - Manufacturers Hanover Trust — 4,769
25. **Kemper Corp.** — **23,800**
    - Kemper Financial Services — 23,800
26. **Wells Fargo & Co.** — **22,433**
    - Wells Fargo Bank/WFIA — 20,133
    - Wells Fargo Realty Advisors — 2,300
27. **N.Y. State Common Fund** — **22,400**
28. **First Interstate Bancorp** — **21,843**
    - Harris, Bretall, Sullivan & Smith — 662
    - Leland O'Brien Rubinstein — 3,472
    - Western Asset Management — 3,252
    - Karsten Institutional Realty Advisors — 746
    - First Interstate Bank of Oregon — 1,500
    - First Interstate Bank of Idaho — 295
    - First Interstate Bank of Utah — 913
    - First Interstate Bank of Washington — 1,200
    - First Interstate Bank of Arizona — 1,451
    - First Interstate Bank of Denver — 2,500
    - First Interstate Invest. Advisors Nevada — 968
    - First Interstate Bank of California — 3,900
29. **The Capital Group** — **20,042**
    - Capital Guardian Trust — 10,627
    - Capital Research and Mgmt. Co. — 9,415
30. **Wellington Mgmt./TDP&L** — **17,645**
    - Wellington Trust Co. of Boston — 294
31. **T. Rowe Price Associates** — **17,590**
    - General partnership — 90
32. **First Chicago Corp.** — **17,297**
    - American National Bank — 7,036
    - First Chicago Investment Advisors — 6,520
    - First National Bank of Chicago — 3,741
33. **General Electric Co.** — **16,900**
34. **American General Corp.** — **15,100**
35. **The Northern Trust Corp.** — **15,065**
    - The Northern Trust Co. — 12,805
    - The Griffin Group — 2,260
36. **N.J. Division of Invest.**** — **14,900**
37. **Bank of Montreal*** — **14,700**
    - Harris Trust & Savings Bank — 14,700
38. **The E.F. Hutton Group** — **14,512**
    - E.F. Hutton Insurance Co. — 1,153
39. **Chemical New York Corp.** — **14,367**
    - Favia, Hill & Associates — 7,788
    - Chemical Bank New York Corp. — 4,223
    - Investment and Capital Mgmt. Corp. — 900
    - Van Deventer and Hoch — 690
    - The Portfolio Group Inc. — 572
    - Alexander, Scriver and Assoc. — 115
    - Chemical Trust Co. of Florida — 79
40. **Scudder, Stevens & Clark** — **13,750**
    - Scudder Realty Advisors — 450
41. **Oppenheimer Financial Corp.** — **13,177**
    - Oppenheimer Capital Corp. — 6,427
    - Oppenheimer Mgmt. Corp. — 6,750
42. **Jennison Associates Capital** — **13,100**
43. **Marsh & McLennan Cos. Inc.** — **12,891**
    - The Putnam Cos. — 12,891
    - The Putnam Advisory Co. Inc. — 5,628
    - Putnam Management Co. — 7,263
44. **Pacific Mutual Life** — **12,458**
    - Pacific Investment Mgmt. — 8,600
    - PM Realty Associates Inc. — 257
45. **Massachusetts Mutual Life** — **12,400**
46. **Batterymarch Fin. Mgmt.** — **12,365**
47. **BankAmerica Corp.** — **12,145**
    - BA Investment Management — 12,145
48. **Lincoln National Corp.** — **12,000**
    - Lincoln National Life Insurance — 5,000
    - Lincoln National Investment Mgmt. — 3,000
    - Lincoln National Pension — 3,000
    - Other subsidiaries — 1,000
49. **Wilmington Trust Co.*** — **12,000**
50. **Sun Life of Canada*** — **11,800**
    - Massachusetts Financial Services — 8,200
51. **JMB Realty Corp.** — **11,500**
    - JMB Institutional Realty — 1,300
52. **State Street Bank & Trust Co.** — **11,500**
53. **Wisconsin Investment Board** — **11,500**
54. **Northwestern Mutual** — **11,017**
    - NML Corp. — 501
55. **New York State Teachers'***** — **10,688**
56. **Security Pacific Corp.** — **10,660**
    - Security Pacific Invest. Managers — 4,260
    - Sec. Pac. Nat'l Bank Trust Invest. Serv. — 3,500
    - Pacific Century Group — 2,900
57. **Bank of New York Co. Inc.** — **10,453**
    - Bank of New York — 9,803
    - Beacon Capital Mgmt. Co. Inc. — 650
58. **First Bank Systems*** — **10,233**
    - First Trust Co. of St. Paul — 4,353
    - First Bank Minneapolis Trust — 3,070
    - CMB Investment Counselors — 2,800
59. **Texas Teachers' Retirement** — **10,123**
60. **United States Trust Co./N.Y.** — **10,100**
61. **Stein Roe & Farnham** — **10,000**
62. **Van Kampen Merritt** — **9,840**
63. **Corestates Financial Corp.** — **9,800**
    - Philadelphia National Bank — 7,200
    - Hamilton Bank — 2,500
64. **Michigan State Employees'** — **9,789**
65. **Continental Illinois Corp.*** — **9,588**
    - Continental Bank — 9,544
    - Two subsidiaries — 44
66. **Bank of New England Corp.*** — **9,500**
    - Bank of New England — 5,175
    - Connecticut Bank & Trust — 3,360
    - Beacon Asset Inc. — 1,025
67. **The Bankers Life** — **9,482**
    - Value Investors Inc. — 15
68. **Ohio Public Employees'** — **9,454**
69. **Brown Brothers Harriman** — **9,400**
70. **Criterion Group** — **9,320**
    - Criterion Investment Mgmt. — 7,790
    - Criterion Funds (affiliate) — 1,530
71. **MONY** — **9,161**
    - MONY of America — 201
    - MONY Pen — 751
    - MONY Legacy — 43
72. **Fayez Sarofim & Co.** — **9,058**
    - Sarofim Trust Co. — 57
73. **Crocker National Corp.** — **8,857**
    - Crocker National Bank — 6,443
    - Crocker Investment Mgmt. Corp. — 2,212
    - Crocker Real Estate Invest. Group — 202
74. **Valley Nat'l Bank of Arizona** — **8,777**
75. **Ohio State Teachers'** — **8,721**
76. **Mutual Benefit Life** — **8,666**
    - Subsidiaries — 89
77. **Liberty Mutual Group** — **8,558**
    - Liberty Mutual Insurance Co. — 7,668
    - L.I. Fire Insurance Co. — 873
    - L.I. Corp. — 20
78. **Minnesota Board of Invest.** — **8,500**
79. **AmeriTrust Corp.*** (holding co.) — **8,400**
    - AmeriTrust Co. — 8,400
80. **Fischer, Francis, Trees & Watts** — **8,300**
81. **Franklin Resources Inc.** — **8,230**
    - Franklin Distributors Inc. — 8,161
    - Franklin Management Inc. — 11
    - BWC Management Co. — 58
82. **Nationwide Mutual Insurance** — **8,206**
    - Nationwide Life Insurance Co. — 3,259
    - Nationwide Financial Services — 790
83. **Washington Invest. Board** — **8,200**
84. **National City Corp.*** — **8,176**
    - National City Bank — 5,129
    - Affiliated banks — 3,047
85. **Trust Co. of the West** — **8,000**
86. **Neuberger & Berman** — **7,996**
87. **CNA Financial** — **7,900**
    - Continental Assurance Co. — 4,484
88. **N.C. Retirement System***** — **7,891**
89. **Boatmen's Bancshares Inc.** — **7,720**
    - Boatmen's Nat'l Bank-Trust Division — 5,520
    - Boatmen's 1st Nat'l Bank/Kansas City — 2,000
    - Boatmen's Union National Bank — 200
90. **Connecticut Mutual Life** — **7,500**
91. **Torchmark** — **7,300**
    - Waddell & Reed — 5,000
    - Torchmark Investment Advisory Co. — 2,300
92. **Comerica Inc.** (and affiliates) — **7,200**
    - Comerica Bank-Detroit — 6,500
93. **NBD Bancorp Inc.*** — **7,163**
    - National Bank of Detroit — 6,451
    - Genesee Merchants Bank & Trust — 331
    - NBD Ann Arbor — 277
    - NBD F&M Bank — 52
    - Other affiliates — 51
94. **Fiduciary Trust Co. of N.Y.** — **7,131**
    - Fiduciary Trust Co. of California — 345
95. **RepublicBank Trust/Dallas** — **7,100**
96. **American International Group*** — **6,923**
97. **U.S. Steel & Carnegie***** — **6,850**
98. **The Continental Corp.** — **6,800**
    - CIC Asset Management — 6,800
99. **Texas Commerce Bancshares*** — **6,744**
    - Texas Commerce Bank Houston — 5,743
    - 15 subsidiary banks — 1,001
100. **American Nat'l Bank & Trust*** — **6,700**

[1] Data as of March 21, 1985, unless otherwise noted
* Figures as of Dec. 31, 1984
** Figures as of June 30, 1985
*** Internal pension assets managed as of Sept. 30, 1984

Insurance firms lead institutional investors

By Kimberly Pyko

America's 100 largest institutional investors control almost $1.9 trillion, and the Top Five alone control a hefty 21%, or $388.14 billion, of that, a ranking by *Pensions & Investment Age* shows.

The ranking includes insurance companies, bank and trust companies, investment counseling and mutual fund firms and in-house pension fund managers.

All companies were surveyed by telephone for total assets managed as of March 31.

Those unable to supply March numbers were asked for year-end figures. Some in-house pension fund managers did not return calls before deadline; in those cases, total pension assets managed as of Sept. 30, 1984, were used.

Prudential Investment Corp. was the overall leader, with a total of $86.37 billion at year end. Trailing closely were three other insurance companies: Metropolitan Life Insurance Co., $84.10 billion; Equitable Life Assurance Society of the United States, $77 billion; and Aetna Life & Casualty Co., $76.97 billion.

A list of the 100 largest institutional investors and their subsidiaries is on page 27.

In addition to capturing four of the top five slots, insurance companies managed the largest portion of the Top 100's total assets, with $681.59 billion under the control of 26 insurers.

The assets include their insurance reserves as well as pension assets and personal assets managed by investment management subsidiaries.

Banks and trust companies placed second as a group, with a total of $538.84 billion under management, and account for 36 of the 100 largest institutions.

Citicorp, which controls $42 billion, is the largest in that group.

Other top bank and trust organizations include Bankers Trust Co., with $39.70 billion under management; J.P. Morgan & Co. Inc., $34.27 billion; and PMC Financial Corp., $29.67 billion. The assets of the banks and trust companies listed included personal and tax-exempt assets and assets of all investment management subsidiaries.

Investment counseling and mutual fund companies make up the third largest group of investment institutions. Twenty such firms managing a total of $313.65 billion appear in the Top 100.

Merrill Lynch & Co., with $52 billion under management at year end, was the leader in that group, followed by FMR Corp., with $29.83 billion, and The Dreyfus Group, with $27.20 billion.

The Dreyfus Group placed third in the overall investment counselors group, but was the largest mutual fund manager in the ranking. The second and third largest mutual fund managers were The Capital Group, with $20.04 billion, and Wellington Management, $17.64 billion.

Fourteen in-house pension funds placed in the Top 100, making them the fourth largest group in the ranking. They control about $171.19 billion, of which the California Public Employees' Retirement System is the largest, with $25.27 billion.

Other leaders among in-house funds are the New York State Common Retirement Fund, $22.4 billion; General Electric Co., with $16.9 billion; and the New Jersey Division of Investment, $14.9 billion.

Four money managers in a miscellaneous category handle the fifth largest piece of the asset pie, with $147.1 billion. American Express Co., a broad-based financial services company, controls $63.7 billion, ranking it a lofty fifth overall. Under its parentage are Shearson Lehman Brothers Inc., at $44.12 billion and IDS Financial Services, at $19.59 billion.

The Teachers Insurance & Annuity Association-College Retirement Equities Fund, a pension fund for higher education and related non-profit educational organizations, ranked second in the miscellaneous category and 10th overall, with $37.14 billion under management.

Sears, Roebuck and Co. ranked third in this category, with $34.76 billion. Its four investment management subsidiaries are Dean Witter Financial Services, SIMCO, Coldwell Banker Commercial Group and Allstate Insurance Co.

Fourth is JMB Realty Corp., the one real-estate-only firm in the Top 100, with $11.50 billion. ■

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Managers are profiled

NEW YORK — A new on-line data base system is available for investment executives seeking up-to-the-minute information on money managers.

The Money Manager Computer Directory, introduced by the Investment Management Institute in cooperation with General Electric Co., was designed to provide information for pension plans, consultants, endowment funds, corporate 401(k) plans and financial public relations firms on more than 700 U.S. money managers, or 20% of the market.

Russell Mason, president of the institute, said the system should have 50% of all money managers profiled by 1986.

The system provides a five-year profile on each money manager, including name, types and sizes of existing clients, asset allocation, strategies, fees, performance data and the names of senior investment officers.

The institute also has established an advisory committee of corporate and investment executives to help keep the directory updated.

The MMCD is integrated with GE Information Services' MARK IIIR teleprocessing network, which allows users to access the directory from more than 750 locations worldwide through a local telephone call. With 24-hour access to the system, a user can call up information on any IBM PC or compatible equipment simply by making menu selections.

The MMCD is available by subscription at a cost of $3,000 a year and about $10 for each money manager profile. Subscriptions may be purchased in commission dollars through participating brokerage firms. ■

Some equity managers go with growth stocks

About 13.9%, or 77 of 552, of equity managers surveyed by *Pensions & Investment Age* list emerging growth stocks as part of their investment approach.

Managers using emerging growth invest in young companies they believe will be successful. Such a company generally is evalutated on the type of product or service it offers, the reputation of its management, as well as its earnings potential.

More than two-thirds of equity managers citing emerging growth have less than $1 billion under management.

What follows is a list of those managers. Information was compiled from questionnaires submitted by the managers for *P&I Age's* May 6 special issue on the nation's leading investment advisers.

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Emerging growth equity managers

Manager	Total tax-exempt assets ($ millions)
American Capital Mgt.	35
American Fletcher National Bank	2,527
American Fund Advisors Inc.	10
Atalanta Capital Corp.	290
E.W. Axe & Co.	163
Bailard Biehl & Kaiser Inc.	50
Beutel Goodman Capital Mgt.	400
Capital Technology	40
Chase Investors Mgt.	13,000
Connecticut Bank & Trust	1,241
Connors Investor Services	124
Martin Currie Inc./Martin Currie	270
DP Asset Mgt. Inc.	15
Eagle Asset Mgt.	82
Eaton Vance Mgt.	901
First Interstate Bank of Arizona	300
First Wisconsin Natl. Bank of Madison	543
First Wisconsin Trust Co.	1,329
Froley Revy Investment Co.	233
Frontier Capital Mgt. Co.	757
Gintel Equity Mgt.	77
T.M. Griffing Associates	8
Growth Stock Outlook	70
Hambrecht & Quist Equity Mgt.	72
Harris Trust & Savings Bank	8,885
IAA Trust Co.	489
IDS Growth Spectrum Advisors	28
Investment and Capital Mgt.	784
Jenswold King & Assoc.	25
Johnson Valliant & Broadfoot Inc.	177
Jundt/Capen Associates Inc.	315
Keeley Asset Mgt. Corp.	3
Kleinwort Benson Intl. Invest. Ltd.	242
Knowles & Haziett Ltd.	4
Lehman Mgt. Co.	6,604
Loewi Asset Mgt. Corp.	110
MacKay-Shields Financial Corp.	3,542
McCowan Associates	1,090
Metropolitan Life Insurance Co.	30,546
Mount Auburn Mgt.	10
Mutual Benefit Life	4,300
National Bank of Detroit	8,370
National Investment Services of America	2,800
New York Life Insurance Co.	7,018
Nicholas-Applegate Capital Mgt.	100
The Northern Trust Co.	6,765
Norwest Capital Management & Trust	1,885
Peregrine Capital Mgt.	369
Perkins Capital Mgt. Inc.	7
T. Rowe Price Associates	7,220
Qualivest Capital Mgt.	429
Reich & Tang Inc.	606
Reimer & Koger Inc.	657
Daniel H. Renberg & Assoc. Inc.	70
Rice Hall James & Associates	420
Rosenberg Capital Mgt.	4,966
Rothschild Securities Corp.	53
Frank Russell Trust Co.	1,600
Ronald Sadoff Associates	30
Schupf Woltman & Co. Inc.	60
Scudder Stevens & Clark	7,161
Second National Bank of Hamilton, Ohio	46
J&W Seligman & Co.	1,102
Cabanne Smith Associates	42
Herbert R. Smith	198
The Spangler Group	120
Technological Investors Mgt.	23
Tenneco Asset Mgt.	775
Tower Capital Mgt.	220
Union Trust Co.	338
United States Trust Co. of New York	2,300
Warburg Pincus Counsellors Inc.	941
Weiss Peck & Greer	2,302
Wellington Mgt./Thorndike Doran P & L	6,141
Wilson Foster & Co.	51
William D. Witter	286
Wright Investors' Service	1,800

Few managers employ quantitative analysis

About 8.5%, or 47 of 552, of equity managers and about 5.5%, or 6 of 110, of balanced managers surveyed by *Pensions & Investment Age* list quantitative analysis as part of their investment approach.

Managers using quantitative methods to select investments typically subscribe to the Modern Portfolio Theory, which says there is a definite relationship between risk and return and that the market is very efficient at digesting information about stocks and adjusting prices to reflect that information.

While most equity managers citing quantitative analysis have less than $1 billion under management, almost one-quarter have more than $1 billion in tax-exempt assets under management.

All of the balanced managers citing quantitative, or MPT, analysis have less than $150 million under management.

Information was compiled from questionnaires submitted by the managers for *P&I Age's* May 6 special issue on the nation's leading investment advisers.

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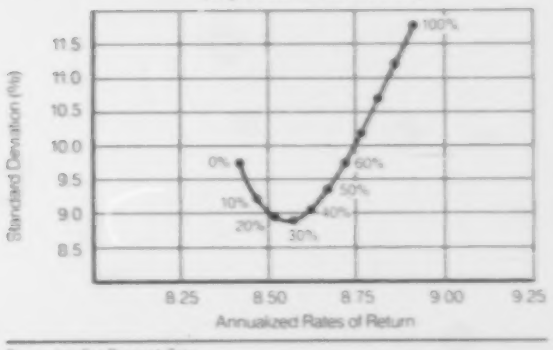

Source: InterSec Research Corp.

Jay A. Dirnberger, Managing Director
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Quantitative equity managers (MPT)

Manager	Total tax-exempt assets ($ millions)
American Capital Advisors	120
Analytic Investment Mgt.	718
Aronson & Folger	10
Atalanta Capital Corp.	290
Bailard Biehl & Kaiser Inc.	50
Batterymarch Financial Mgt.	11,998
BayBank Middlesex	315
George D. Bjurman & Assoc.	376
The Boston Co.	5,498
Capital Mgt. Intl.	0
Cedarpoint Capital Mgt.	80
Centerre Trust Co. of St. Louis	2,351
DanBell Capital Mgt. Inc.	50
Dominion Trust Co.	300
First Investment Mgt.	1,341
Fiske Capital Mgt.	77
Franklin Portfolio Assoc.	483
Gateway Investment Advisors	64
Gould Research	90
Gradison & Co.	42
Investment Counselors of Maryland Inc.	665
The John Hancock Companies	13,260
Tom Johnson Investment Mgt. Inc.	380
Liberty Natl. Bank of Louisville	680
Lincoln National	3,812
MPT Associates	946
Mellon Capital Mgt. Corp.	2,900
New Japan Capital Mgt.	0
Noddings-Calamos Asset Mgt.	60
Nomura Capital Mgt.	215
NorthWest Quadrant	20
Norwest Capital Mgt. & Trust	1,885
Parker Dillon Carlson & Johnson	11
Pittsburgh National Bank	3,286
Portfolio Capital Mgt.	27
Prudential Asset Mgt.	34,189
Reimer & Koger Inc.	657
SCNC Advisory Corp.	525
Herbert R. Smith	198
Stein Roe & Farnham	4,313
TSA (Trust Services of America)	700
Union Trust Co.	338
United States Trust Co., Boston	190
Waycross Investment Mgt.	20
Wedge Capital Mgt. Inc.	100
Wilshire Associates	1,531
Zavanelli Portfolio Research	8

Quantitative balanced managers (MPT)

Manager	Total tax-exempt assets ($ millions)
Alexander Scriver & Assoc.	57
Inverness Counsel	144
MassCo Investment Mgt. Corp.	130
Reiser-Builder Inc.	23
Simpson Capital Mgt.	6
Systematic Investors Inc.	19

Consultants' clients asked to back 401(k)

Officials of three employee benefit consulting firms are asking their clients to help them fight against the abolishment of 401(k) salary reduction plans.

Officials of Buck Consultants, New York; The Wyatt Co., Chicago; and Hewitt Associates, Chicago, say abolishing 401(k) plans would eliminate a major incentive for saving for millions of lower- and moderate-income workers.

In reports to clients, they also contend low-income employees do not participate in individual retirement accounts, which is contrary to what Reagan administration and Treasury Department officials have said. Lower-income employees have a much higher participation in 401(k)s, the consultants say.

Congress is considering a proposal to eliminate 401(k)s as a way to increase federal tax revenue. Such a move could produce as much as $11.6 billion in revenue, according to White House proponents.

"After hearing almost a year's worth of lobbying effort in support of 401(k) and its merits, with regard to retirement savings, the Treasury (Department) has still felt justified in going back to a proposal they made last year — repealing Section 401(k) in its entirety," Wyatt officials said in their report.

The Treasury Department is doing so despite "strong opposition by employers and employees to any curtailment," Buck officials noted.

Ironically, taking 401(k)s away now will hit lower-paid workers the hardest, undercutting the very notion of tax reforms, Wyatt staffers said in their report.

Despite the fact the Treasury points to IRAs as a "more democratic vehicle" for savings, "when you look at actual participation levels, you see that lower-income workers just haven't been using IRAs much at all," the Wyatt staff wrote.

Strict non-discrimination rules for forming a 401(k) plan require a minimum level of low-income employee participation, so companies work to encourage worker involvement through extensive communication efforts and matching contributions, according to the three reports.

In fact, an analysis of 1983 census data done by The Wyatt Co. indicates 401(k)s are more popular than IRAs for all types of employees.

"The lower the income, the wider the gap between the two accounts — employees earning under $10,000 are close to three times more likely to participate in a 401(k) than an IRA," the Wyatt staffers wrote. ■

Employee participation in 401(k)s vs. IRAs

Employees' annual income	% of eligible group participating in: 401(k)s	IRAs
Up to $9,999	21.9	8.3
$10—14,999	28.1	12.6
$15—19,999	37.9	18.2
$20—24,999	38.4	21.4
$25—34,999	47.2	29.7
$35—49,999	55.4	46.3
$50,000 and over	66.3	57.7
All income levels	**39.0**	**17.7**

Source: The Wyatt Co.

Jennison caps Prudential's acquisitions

NEWARK, N.J.— The Prudential Insurance Co. of America's aggressive search for asset management subsidiaries might level off with its acquisition of Jennison Associates Capital, New York, for $80 million.

"As of now, we're not out actively looking for more major acquisitions," said Robert E. Riley, chairman of Prudential Asset Management Co. Inc.

"There is a possibility that we could be filling a product need at some time. But now, we would consider doing it by internal development, start-up, or acquisition, in that order."

The addition of Jennison Associates as an independently operated subsidiary will offer Prudential's institutional clients a second stock and bond management alternative, he said.

"The acquisition of Jennison will add to the Prudential family substantial additional capabilities for managing stock and bond portfolios for institutional clients," Mr. Riley said. "This new association further affirms Prudential's commitment to institutional asset management."

Prudential Asset Management oversees investment of roughly $35 billion in discretionary accounts for tax-exempt clients in such areas as equities, fixed income, balanced, real estate and international.

Jennison Associates manages about $15 billion in stocks and bonds for pension funds, endowments and foundations. It is owned by 26 shareholders, 22 of whom are key employees.

A Prudential spokesman would not reveal details of the agreement, saying only that Jennison will function as a separate Prudential subsidiary with current management continuing to be responsible for investment management and client service activities. Jennison management will participate in an incentive-compensation plan related to the performance of the firm, he added.

According to the 1985 Money Market Directory, top management figures include John H. Hobbs, president, and Spiros Segalas, senior vice president and chief investment officer.

Jennison's equity management has a growth stock orientation, and it employs an active, long-term approach to fixed-income management. Jennison also does dedicated and controlled fixed-income management.

Prudential officials hope to have completed the acquisition officially by the beginning of next year. ■

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American Airlines' deal

Equity program trades grow

By Fred Williams

Two large pension funds are among a growing number taking program trading, first used for fixed-income portfolios, to the equity markets.

American Airlines Inc., Dallas, has completed its first such trade, a $50 million one in late summer. Chrysler Corp., Detroit, used program trading when it liquidated its entire $450 million equity portfolio as part of its move to a $1.1 billion dedicated bond portfolio in July 1984.

Program trading is a controversial and complex process that can take a variety of forms. The American Airlines trade, for example, was a relatively straightforward, speedy portfolio switch.

Program trades can be used by pension funds to move assets to new managers from ones that have been terminated, for dedicating bond portfolios, by index fund managers adjusting portfolios periodically and by money managers who use sector rotation style of management.

One attraction of a program trade is disposal in one transaction of a complete portfolio put up for bid. The pension fund is seeking speedy completion and certainty of price, rather than, necessarily, lowest commission. The bidders use sophisticated computer programs. The successful bidders often use futures and options to hedge their positions until they can dispose of the stocks.

American Airlines' trade, although not large by block trade standards, was important because it took aim at a Wall Street shibboleth: that large block trades should be handled by a single brokerage house.

American initiated its program trade through a major Wall Street firm but also cut three discount brokers in on the deal.

The airline's pension fund had an $80 million equity portfolio it wanted to reallocate from a terminated money manager to new and existing managers.

"It's a way of selling an entire portfolio with one sweep of the pen at a stated price," said William F. Quinn, the assistant treasurer at American who engineered the trade.

Before soliciting bids on the portfolio, Mr. Quinn said, existing managers were allowed to select specific issues they wished to hold in their own portfolios.

Of the remaining $50 million equity position, 70% was bid to the major Wall Street houses and 30% was directed to three discount brokers — Charles Schwab & Co., Fidelity Investments Brokerage Services Inc. and Abel Noser Co.

Only a handful of Wall Street investment banking establishments conduct program trades on behalf of their clients or with their own inventory.

Goldman, Sachs & Co. and Salomon Brothers Inc. are the recognized leaders and dominate the program trading market with Morgan Stanley & Co. Inc., Drexel Burnham Lambert Inc. and Paine-Webber Inc. also active in the area.

"One of the efficiencies of a program trade is in execution. You can do it almost overnight rather than over a several-week period. You can be invested tonight; that's the

Continued on page 61

Photo by Arnie Adler

Traders at Salomon Brothers: A new emphasis on program trades?

Shifts in trading seen at Salomon

By Barry B. Burr

NEW YORK — Salomon Brothers Inc.'s share of institutional block trades fell sharply during the past year in a shrewd business decision to devote more resources to the growing and more lucrative program trading area, Wall Street sources told *Pensions & Investment Age*.

Salomon's move appears to be an effort to find a more profitable trading niche as a result of intense pressure by pension funds and money managers to cut commissions, which would reduce brokerage firms' revenue. It means Salomon acts more as a dealer, or principal, rather than a broker, or agent, in trading.

Bruce C. Hackett, Salomon's managing director of equity sales and trading, denied any drop in its block trading volume and any redirection of its business. But he did say Salomon is pursuing program trades aggressively.

Nevertheless, data compiled by SEI Corp. from about $80 billion in institutional trades show Salomon has lost nearly 40% of its market share in handling block trades since July 1984.

Until now, Salomon consistently had ranked in the Top Three among institutional brokerage in SEI's data, said Gilbert L. Beebower, SEI senior vice president; "It stuck out like a sore thumb"

Mr. Beebower surmises Salomon decided to de-emphasize institutional block trading to capture more of the relatively new and increasingly popular program trading. Traders interviewed at money management firms agreed.

"Salomon really committed itself to program trades, and to do that at the expense of normal institutional trades," Mr. Beebower said, interpreting the brokerage findings.

"Their bids and offers were not as good as they used to be."

Fred M. Hughes, vice president-equity trades, Capital Guardian Trust Co., Los Angeles, said, "I think Salomon's intent for the last year is to concentrate on program business, and block trading is taking a back seat because they make more money on programming."

A trader for another money manager, who asked not to be identified, said, "I haven't done very

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Tax plan has good, bad news

By Jerry Geisel

WASHINGTON — A new list of benefit tax options before the House Ways and Means Committee offers employers the hope that 401(k) plans will be saved, but threatens onerous rules and taxes in other areas.

The newest options being considered for the tax-reform bill include some taxes and restrictions not recommended by the Reagan administration in its proposal.

The options paper, prepared by staffs of the influential Joint Committee on Taxation and the Ways and Means Committee, will carry great weight with Ways and Means members who began drafting a tax reform bill in closed sessions in early October.

For employers with 401(k) plans, the options offer hope the popular salary reduction savings plans will not be eliminated, as proposed by the Reagan administration. The Ways and Means Committee is weighing a proposal that would retain 401(k) plans but limit annual salary deferrals to $5,000 and impose new non-discrimination rules.

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Thomas M. Richards, Richards & Tierney Inc., Chicago. Photo by Michael Marcotte

The microcomputer is becoming an integral part of investment management. A directory of software and data bases begins on page 15.

Late news

Study clears trade

AUSTIN, Texas — The Teacher Retirement System of Texas has been cleared by state auditors of any wrongdoing in a $169 million series of bond trades, sources said.

A former employee had charged the system traded Housing and Urban Development hospital bonds

Continued on page 2

6 take action on S. Africa

By Steve Hemmerick, Trudy Ring and Ed Christman

A major state pension fund, two large city funds, a nationwide teachers' retirement system and two endowment funds have come up with various responses to the question of whether to divest themselves of South Africa-related securities.

• The $28.8 billion California Public Employees' Retirement System board of trustees could end up divesting as much as $5 billion in securities if the issuing companies don't meet new requirements relating to South Africa.

• Two Los Angeles city retirement plans with assets totaling $3.2 billion have approved anti-apartheid divestment programs, but it appears it will be months before any divestment takes place, and then only if several levels of approval are given.

• The chairman of the largest tax-exempt fund in the United States, the $39 billion TIAA-CREF, has sent a letter to the chief executive officers of 43 companies in the fund's equity portfolio, saying the fund's management and trustees will consider aggressive actions if those companies, which represent holdings of $450 million, do not sign and implement the Sullivan Principles of non-discrimination. However, a spokeswoman for the fund declined to say what these actions might be.

• Regents of the $147 million Smithsonian Institution endowment fund, under pressure from Congress to sell all South Africa-related stocks, voted not to divest further. The endowment has divested itself of stock in companies that have not signed the Sullivan Principles.

• Trustees of the $900 million Columbia University endowment fund, which also has had a policy tied to the Sullivan Principles, voted to sell stocks in all companies doing business in South Africa.

Divestiture may boost small stocks — page 53

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The PIPER monthly indexes track the changes in the Standard & Poor's 500 stock index, the Russell 3000 stock index, the Ryan Index of fixed-income securities and the Shearson Lehman Government/Corporate bond index.

PIPER September indexes

	Latest mo.	Year to-date	Trailing 12 mos.
S&P 500	-3.1	12.5	14.6
Russell 3000[1]	-3.9	13.0	14.6
Ryan Index[2]	0.8	14.4	23.4
SLAE Gov't./Corp.[2]	0.5	12.8	21.2

Source: Rogers, Casey and Barksdale Inc.
[1]Source: Frank Russell Co. [2]Fixed income

Public funds join giant buy-out pool

By Chuck Paustian

Three public pension funds have invested in what could be the largest leveraged buy-out pooled fund.

The Washington State Board of Investment, Olympia, and the Oregon Public Employees' Retirement System, Salem, each committed $200 million to the limited partnership fund set up by the New York investment banking firm Kohlberg Kravis Roberts & Co. The State of Wisconsin Investment Board, Madison, committed $75 million to the pooled fund.

The Minnesota State Board of Investment, St. Paul, is considering investing in the fund.

The investments come at a time when some industry sources predict pension funds will move away from leveraged buy-outs and other higher-risk investments.

The KKR pool, the fifth set up by the firm, has not been closed. However, it is expected to reach $2 billion, making it the largest such fund ever established and probably including additional pension fund money.

As limited partners in the blind pool, the pension funds will commit a designated amount without knowing for which, or for how many, deals the money will be used.

Once a deal has been structured, the funds are notified of their share of the equity portion, determined on a prorated basis.

The Washington State Board of Investment, with $6 billion in retirement assets, has invested in excess of $480 million in leveraged buy-outs, or about 8% of total assets, including this most recent commitment.

John Hitchman, executive director of the Washington board, said he is not worried about the vast size of the pool, or the possibility of future pools growing even larger.

"First of all, its somewhat meaningless for us to get involved in small LBOs," said Mr. Hitchman.

"In addition to that, it puts KKR in a unique status. It's hard for other (buy-out firms) to compete with them. If you get $2 billion in an equity pool, it is a distinct advantage."

The Washington board's policy states no more than 10% of total assets can be invested in partnerships.

James C. George, investment manager for the $5 billion Oregon retirement system, said he sees no signs of declining interest in leveraged buy-outs.

The Oregon fund has about $540 million committed in leveraged buyouts, or about 11% of total assets.

The Wisconsin board, with $10.5 billion in retirement assets, is viewing the investment as an additional outlet for its assets.

Kenneth E. Codlin, executive director, said the investment fits in with the investment style of the fund "basically because we are long-term investors and this has a long orientation that meets our needs."

The fund also has invested in other leveraged buy-out pooled funds with Forstmann Little & Co. and Merrill Lynch Capital Markets' investment banking division, both in New York.

The investment in the KKR pool raises the fund's total commitment to leveraged buy-outs to $125 million, or just more than 1% of total assets.

For the most part, pension funds that are considering leveraged buy-outs invest in a pooled fund.

"There's a plus to that because you are diversified. You have your investments in several companies," said Oregon's Mr. George. ■

Forstmann Little LBO

Pension plans in Revlon deal

By Chuck Paustian

NEW YORK — Pension funds are playing a prominent role in an estimated $3 billion Revlon Inc. anti-takeover attempt constructed by Revlon officials and investment bankers Forstmann Little & Co.

If successful, the leveraged buy-out will be Forstmann Little's largest deal.

Officials of Forstmann Little, Revlon and Pantry Pride were not available for comment, but numerous sources confirmed the details.

About $445 million — including money from the firm's two leveraged buy-out pooled funds in which pension funds heavily invested -- will be invested by Forstmann Little in the deal, with the balance of the purchase price, about $1.3 billion, coming from bank loans.

It is not known what portion of Forstmann Little's partnerships will be used in the Revlon deal.

The Forstmann Little & Co. Subordinated Debt and Equity Management Buy-out Partnership-II, with $405 million in assets, has the heaviest concentration of tax-exempt money.

Investors in the subordinated debt pool, and the amount committed, include: General Electric Co., $75 million; Boeing Co., $50 million; Amoco Corp., $40 million; GTE Corp., $30 million; Delta Air Lines Inc., $25 million; Allied Corp., Dresser Industries Inc., Honeywell Inc., Texas Instruments Inc., American Telephone & Telegraph Co., Equitable Life Assurance Society of the United States and The State of Wisconsin Investment Board, $20 million each; Aetna Life Insurance Co. and Aetna Casualty & Surety Co., $10 million each; and American Motorists Insurance Co., Economy Fire & Casualty Co., Kemper Investors Insurance Co., Kemper Reinsurance Co. and Equitable Variable Insurance Co., $5 million each.

Investors in the subordinated debt partnership lend money to Forstmann Little, which uses the capital (as well as some of its own money) to supply the subordinated debt, or "mezzanine financing," portion of its deals. In return, investors receive a designated interest rate as well as an opportunity to purchase equity in the acquired company.

The other pool, a $100 million straight equity one and the second Forstmann Little has set up, is primarily composed of individual investors, although some institutional investors do participate.

One source said many of the investors in Forstmann Little's first equity pool also participated in the second pool.

Pension funds in the first equity pool include General Electric, GTE, Hughes Aircraft Co., Minnesota Mining & Manufacturing Co.,

Continued on page 62

Cash held increases in 3rd quarter

By Fred Williams

Equity money managers increased their cash positions slightly during the third quarter, to 7.1% of their assets from 6.1% at the end of the first half of the year.

Managers had reduced their cash reserves to 5.8% earlier in the summer before ending the quarter at 7.1%, according to information compiled by INDATA, a Southport, Conn., investment analysis firm.

One possible explanation for the increased cash position: The stock market failed to produce the same fireworks it had during the previous two summers, even weakening slightly. That might have caused portfolio managers to hoard cash in anticipation of a fourth-quarter upswing.

The INDATA survey covers an investment universe valued at $104 billion contained in just more than 1,000 institutional portfolios. The highest cash position ever measured by the survey was 16.9% in 1982; the lowest, 5.4% in 1976.

Despite INDATA's statistics, only one of the eight money managers whose cash position is tracked by *Pensions & Investment Age* reported an increase in cash reserves.

Hibernia National Bank, New Orleans, increased its equity cash position dramatically — to 31% at the end of the third quarter from 11% the previous quarter.

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Late news

Continued from page 1

for U.S. Treasury bonds at less than market value and with a lower interest rate.

A spokesman at the auditor's office declined to comment, but sources said system officials were cleared in a letter outlining preliminary results of the audit.

Fund misuse charged

CHICAGO — A federal grand jury here has indicted two union officials on charges of illegal conduct relating to pension funds of Structural Iron Workers Local No. 1.

Joseph J. Botica, administrator of the local's pension and annuity fund, was indicted on a charge of violating federal racketeering laws by soliciting and accepting about $6,711 in kickbacks from at least 13 union members from 1981 through 1984. Peter J. Vrdolyak, a trustee of the local's welfare fund, was charged with embezzling $4,385 from that fund and diverting it to his own use.

Termination sought

The Pension Benefit Guaranty Corp. is seeking the termination of the Accurate Die Casting Co.-UAW pension plan, covering the company's Fayetteville, N.Y., plant.

The PBGC also asked the U.S. District Court for Northern New York to appoint the agency as plan trustee. The plan has not received a contribution since 1980 and has exhausted its assets, the PBGC said.

Foundation strategy

URBANA, Ill. — A $40 million gift to the University of Illinois Foundation probably will be invested in short-term Treasury securities to allow the foundation to receive the proceeds quickly, a university official said.

The foundation likely will place the money with First Chicago Investment Advisors, one of its two money managers, to be invested in Treasuries and commercial paper, said John Williamson, director of gift administration.

The $40 million, from California businessman Arnold O. Beckman, likely is the largest gift ever made to a public university by an individual. The university will use the money to build a research center, construction of which is expected to begin in 1986.

Before the gift, the foundation had slightly more than $90 million in assets, Mr. Williamson said.

NYC drops manager

NEW YORK — The $22 billion New York City Retirement System has terminated a $190 million actively managed equity account with MacKay-Shields Financial Corp., New York because of performance, said Marvin Damsma, third deputy comptroller.

The $190 million will be reallocated among the fund's 29 other investment managers, he said.

Late money movers

• MADISON, Wis. — The $11 billion State of Wisconsin Investment Board has made its first venture capital commitments, following the enactment of a law allowing it to invest up to 2% of assets in such investments.

Regional Financial Enterprises, New Canaan, Conn., and Prudential Venture Partners, New York, each received $6 million; Oxford Partners, Stamford, Conn., $3 million; and Madison Capital Corp., Madison, Wis., $400,000.

• WASHINGTON — The $650 million District of Columbia Retirement Board has terminated Alliance Capital Management's Chicago office as manager of a $104 million active equity account, completing the fund's 15-month restructuring, said Earl Johnson, the fund's executive director.

Up to $40 million will be split between Hahn, Holland & Grossman, Chicago, and Wheat, First Securities Inc., Richmond, Va.

• LOS ANGELES — The $27 million Los Angeles Hotel & Restaurant Workers, Local No. 11 Retirement Fund has placed an undisclosed amount in a guaranteed investment contract with Prudential Asset Management, Newark, N.J.

• DALLAS — Republic Financial Services Inc. hired MSecurities here for a $9 million balanced account for its approximately $18 million profit-sharing plan.

Security Pacific Investment Managers Inc., Los Angeles, was dropped from the account.

• PHILADELPHIA — The Hotel Employees and Restaurant Employees Local 274, with about $9.5 million in retirement assets, has made its first moves into active asset management.

The fund allocated $3.8 million each to The Boston Co., Boston, and Union Labor Life Insurance Co., New York, for fully discretionary balanced accounts, said James Small, president. The money was in certificates of deposit.

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Pictured on page 15: Charles J. McPike, principal, and Nancy E. McPike, associate, Richards & Tierney Inc.